

COMMENTS ON SB437, S-3
BY MARTIN KUSHLER, PH.D., ACEEE

While there are some incremental improvements in the S-3 version of SB437, the bill still falls short of what could be supported. The following are 4 key changes that, at a minimum, would have to be included.

1. (p. 61, lines 13-14) Replace the words “GENERATION CAPACITY” with “ELECTRICITY RESOURCES”. The term “capacity” does not sufficiently represent the nature and the costs of the resources necessary to provide electricity service to ratepayers. The proposed legislation frequently uses the terminology “generating capacity” or “capacity”, when it should properly be referring more broadly to “electricity resources”. The cost that ratepayers pay for electricity is not just the “capacity” cost, it is all costs associated with generating and delivering the electricity to the end-user, including capacity costs, fuel and operating costs, and transmission and distribution costs. Printed below is one example [from Sec. 6t(1)(E)(iii) (p.61)] of where the proposed wording should be changed (All new text I am suggesting is capitalized, underlined & italicized):

“(iii) **ANY SUPPLY-SIDE AND DEMAND-SIDE RESOURCES THAT COULD ADDRESS ANY NEED FOR ADDITIONAL ELECTRICITY RESOURCES ~~GENERATION CAPACITY~~, INCLUDING, BUT NOT LIMITED TO, THE TYPE OF GENERATION TECHNOLOGY FOR ANY PROPOSED GENERATION FACILITY, PROJECTED ENERGY EFFICIENCY SAVINGS, AND PROJECTED LOAD MANAGEMENT AND DEMAND RESPONSE SAVINGS.**”

[NOTE: the legislation should include a definition of “electricity resources” as: “ANY SUPPLY OR DEMAND-SIDE RESOURCES USED TO MEET THE ELECTRIC SERVICE NEEDS OF THE CUSTOMERS OF A UTILITY”.]

2. (pp. 63-64) Crucial elements are missing from the requirements for an IRP. Sec. 6T (5) lays out the requirements for an IRP. This sub-section is seriously deficient in several respects. In particular, there is no requirement to analyze the potential for energy waste reduction as a resource. In fact, there is no basic requirement to comprehensively analyze all possible electric resource options...which is the most basic purpose of an IRP! A new sub-paragraph (5)(B) should be added to page 63/64 as follows:

(b) A COMPREHENSIVE AND TRANSPARENT ANALYSIS OF ALL ELECTRICITY RESOURCE OPTIONS THAT COULD BE USED TO MEET THE INCREMENTAL RESOURCE NEEDS FOR THE UTILITY OVER THE IRP PLANNING TIME FRAME. THIS SHOULD INCLUDE ALL APPLICABLE ELECTRICITY GENERATION OPTIONS, INCLUDING FROM RENEWABLE ENERGY SOURCES, AS WELL AS RESOURCES FROM CUSTOMER ENERGY WASTE REDUCTION PROGRAMS, LOAD MANAGEMENT AND DEMAND RESPONSE.

This addition is particularly needed because the current requirement in (5)(D) merely asks for the utility to just describe their “plan” for reducing energy waste. That could conceivably be little or no programs to reduce energy waste. Note that the existing language regarding the requirements for an IRP under the Certificate of Need process anticipated that problem, and includes the following language:

“(f) An analysis of the availability and costs of other electric resources that could defer, displace, or partially displace the proposed generation facility or purchased power agreement, including additional renewable energy, energy efficiency programs, load management, and demand response, beyond those amounts contained in subdivisions (c) to (e).” (p. 59, lines 19-24)

The essence of that requirement, to fully analyze and provide information on the potential for all forms of demand-side resources, must be an essential part of the IRP requirements.

3. (p. 69, lines 7-23) Similarly, the list of factors for the Commission to consider in their review of an IRP needs some important improvements. The text below in underlined, italic CAPS should be added.

“TO DETERMINE WHETHER THE INTEGRATED RESOURCE PLAN IS THE MOST REASONABLE AND PRUDENT MEANS OF MEETING ELECTRICITY RESOURCE ENERGY AND CAPACITY NEEDS, THE COMMISSION SHALL CONSIDER WHETHER THE PLAN APPROPRIATELY BALANCES ALL OF THE FOLLOWING FACTORS:

(i) RESOURCE ADEQUACY AND CAPACITY TO SERVE ANTICIPATED PEAK ELECTRIC LOADS AND RESERVE MARGIN REQUIREMENTS.

(ii) THE NET PRESENT VALUE OF REVENUE REQUIREMENTS UNDER THE PLAN, COMPARED TO ALTERNATIVE RESOURCE PLANS.

(ii) COMPLIANCE WITH APPLICABLE STATE AND FEDERAL ENVIRONMENTAL REGULATIONS.

(iii) COMPETITIVE PRICING AND TOTAL UTILITY COSTS TO RATEPAYERS.

(iv) RELIABILITY.

(iv) ENVIRONMENTAL COSTS AND BENEFITS.

(v) COMMODITY PRICE RISKS.

(vi) DIVERSITY OF GENERATION SUPPLY.

Those three added elements are absolutely essential for a properly conducted IRP.

4. (pp. 88-90) The incentive level caps for the utilities are too high. They should be commensurate with what we have recommended for SB438. i.e.,

Savings over 1.5%: cap of 20% of spending

Savings 1.0% - 1.5%: cap of 15% of spending

Savings below 1.0%: no incentive

The above list of items are changes that would be necessary to move from opposition to neutral regarding SB437. There may be other improvements that would result in a position of support, but I will need more time to analyze the most recent bill.

Thank-you for your consideration. I would be happy to answer any questions.

Martin Kushler, Ph.D.
Senior Fellow
ACEEE

COMMENTS ON SB438, S-3
BY MARTIN KUSHLER, PH.D., ACEEE

While there are some incremental improvements in the S-3 version of SB438, the bill still falls short of what could be supported. The following are 5 key changes that, at a minimum, would have to be included.

1. (p.3, line17) The “goal” for combined energy waste reduction and renewable energy by 2025 should be at least 40%.
2. (p.17, lines 17-18) There is no need to have the restriction of “BEFORE JANUARY 1, 2021...” added to the definition of “Utility system resource cost test”. This is a basic definition of cost-effectiveness for an energy waste reduction program, which should remain true even after any transition to an IRP framework for energy waste reduction programs. This paragraph should simply revert back to the original PA 295 language (with the wording change to “WASTE REDUCTION” where appropriate).
3. (p.40, line 7 and line 2) There is no reason to increase the cap on utility financial incentives to 20% unless there is a commensurately higher performance. We would support the following language (which is also consistent with the tiered incentive structure passed by the House committee):

(1) The total amount of a financial incentive for an electric provider that achieves annual incremental savings of more than 1.5% of its total annual retail electricity sales in megawatt hours in the preceding year or a natural gas provider that achieves annual incremental savings of more than 1% of its total annual retail natural gas sales in decatherms in the preceding year shall not exceed the lesser of the following amounts:

- (a) 30% of the net present value of life-cycle cost reductions experienced by the provider's customers as a result of implementation of the energy optimization plan.
- (b) 20% percent of the provider's actual energy efficiency program expenditures for the year.

(2) The total amount of the financial incentive for an electric provider that achieves annual incremental savings of at least 1% but less than 1.5% of its total annual retail electricity sales in megawatt hours in the preceding year or a natural gas provider that achieves annual incremental savings of at least 0.75% but less than 1% of its total annual retail natural gas sales in decatherms in the preceding year shall not exceed the lesser of the following amounts:

- (a) 25% of the net present value of life-cycle cost reductions experienced by the provider’s customers as a result of implementation of the energy optimization plan.
- (b) 15% of the provider’s actual energy efficiency program expenditures of the year.

(3) No financial incentive shall be authorized for an electric provider that achieves annual incremental savings of less than 1% of its total annual retail electricity sales in megawatt hours in the preceding year or a natural gas provider that achieves annual incremental savings of less than 0.75% of its total annual retail natural gas sales in decatherms in the preceding year.

(4) In reviewing and approving a financial incentive plan for a provider, the Commission shall attach relatively higher rewards within the above limits to achieving greater amounts of life-cycle benefits.

[NOTE: Any utility incentives for energy waste reduction in SB437 should not exceed those levels as well.]

4. (p. 41, line 13) While we do not support any termination of the 1.0% energy savings standard that exists in PA 295, the language in this line is inconsistent with the new S-3 approach to continue the Energy Waste Reduction framework through December 31, 2020. At a minimum, the 1.0% percent annual savings standard must be extended to include 2019 and 2020.
5. (p. 64, lines 5-12) The language on lines 5-12 on p.64 should not be stricken, and should remain as it was in PA 295. This is general language without any specific mandates, but is important language to indicate that energy efficiency and energy conservation are important state policy objectives. Deleting this language not only sends a message of hostility to energy efficiency and energy conservation, it is very discriminatory given that nearly identical language calling on the Commission to promote load management, in the very same section of the bill, is not only retained, it is strengthened. The original PA 295 language regarding Commission promotion of energy efficiency and energy conservation should be retained.

The above list of items are changes that would be necessary to move from opposition to neutral regarding SB438. In order to achieve enthusiastic support for the bill it would be necessary to also eliminate the sunset on the electric Energy Waste Reduction framework and annual savings standards, and increase the electric annual energy savings standard to 1.5% or higher...which is the level of savings that the energy efficiency potential study performed for the MPSC determined was cost-effective and achievable.

Thank-you for your consideration. I would be happy to answer any questions.

Martin Kushler, Ph.D.
Senior Fellow
ACEEE